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C O N F I D E N T I A L SECTION 01 OF 03 SINGAPORE 001455

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SUBJECT: (C) SINGAPORE'S VIEWS ON APEC AND SOVEREIGN WEALTH FUNDS

Classified By: A/DCM STANTON FOR REASONS 1.4(b) and(d)

¶1. (C) Summary: Singapore officials told Treasury Deputy Assistant Secretary for Asia Robert Dohner that they generally supported Treasury's proposed APEC Capital Market Technical Assistance program as well as Treasury's key priorities for the APEC Finance Ministerial in August 2-3 in Australia. Second Minister of Finance Tharman Shanmugaratnam noted that the increased number and size of sovereign wealth funds (SWFs) raised "some valid concerns." He suggested that bilateral engagement on improving transparency would be more effective than a multilateral effort to develop best practices for SWFs, though he could see "some merit" in best practices if not "politically driven." Temasek and the Government Investment Corporation (GIC) officials agreed with concerns about financial protectionism and systemic risk. They acknowledged that their governance model was not appropriate for many countries. They were non-committal about improving transparency, but were willing to continue engaging on the topic. End Summary.

¶2. (U) Treasury Deputy Assistant Secretary for Asia Robert Dohner visited Singapore on July 20 to discuss the APEC Finance Minister's meeting and sovereign wealth funds. He met with Singapore's Second Minister of Finance Tharman Shanmugaratnam, officials at the Monetary Authority of Singapore (MAS) and Ministry of Finance (MOF), as well as representatives from Singapore's two SWFs, Temasek and GIC. The Treasury delegation also included Director of the International Monetary Policy Office Robert Kaproth, International Economist Benjamin Cushman, and FINATT.

Similar APEC goals

¶3. (SBU) DAS Dohner told MAS and office officials that the USG had four priorities for the August 2-3 APEC Finance Ministerial in Australia: 1) strengthening capital markets; 2) promoting flexible exchange rates; 3) promoting open trade and investment; and 4) making a strong stand against abuse of financial systems by money launderers, terrorists and weapons proliferators. DAS Dohner said the USG delegation, to be led by Treasury Deputy Secretary Robert Kimmitt, expected these priorities to be addressed in the APEC Ministerial communique. He also explained that the USG's proposals for capital markets technical assistance in APEC envisioned the posting of resident advisors in willing APEC member governments to work on specific issues related to capital market development.

¶4. (C) In separate meetings, Minister Tharman and MAS

officials expressed support for capacity building in capital markets. MAS noted that they had received requests from Vietnam and Indonesia for assistance in capital market issues) requests they could not fulfill themselves. Minister Tharman inquired whether there was a way to position U.S. Treasury's assistance so that it would appear not to come from the United States. DAS Dohner replied that this would not be possible, noting that while some countries were sensitive to having U.S. advisors, others in the region had been enthusiastic recipients of U.S. assistance.

Singapore Advocates a Quiet Strategy for SWFs

¶15. (C) DAS Dohner explained SWFs should be clear about their investment objectives and holdings, not only to allay concerns about their intentions, but to promote good risk management and transparency. He emphasized that, despite these concerns, the USG remained unequivocally committed to an open climate for foreign investment, as laid out in the President's May 9, 2007 statement on the matter. Additionally, DAS Dohner expressed his hope that by developing of a series of best practices, SWFs would help head off the pressure for financial protectionism.

¶16. (SBU) Director Kaproth noted that Treasury was examining implications of SWFs for financial stability. He cited several factors that mitigated risks to the financial system from SWFs such as low leverage, lack of redemption pressure, and a long-term investment horizon. However, unlike hedge funds, there were few avenues for market discipline of SWFs by investors, creditors or counterparties. SWF "investors" were citizens that might not have the ability or information to assess SWF performance. Counterparties and creditors)-

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to the extent that the funds had any debt at all)- could reasonably assume a sovereign guarantee, thus reducing the incentive to monitor SWF activities. For these reasons, SWFs raised a separate set of policy issues from hedge funds, and called for broader public disclosure, Director Kaproth argued.

¶17. (C) MAS Director for External Affairs LEONG Sing Chiong noted that MAS did not consider its \$127 billion in foreign exchange reserves excessive. (Note: Most of the GIC's funds come from the fiscal surpluses transferred from the government over the years. End note.) He argued that other SWFs could learn, however, from Singapore's 30-year history with SWFs, particularly in the areas of risk management and governance. Leong expected that developing one set of best practices might be difficult due to the unique circumstances in each country.

¶18. (C) Minister Tharman said he understood the USG concerns about large SWFs, though he thought those concerns were more appropriately directed at China and Russia. He opined that the United States would get better traction with a quiet, informal, bilateral approach than with institutionalizing the work multilaterally. Director Kaproth observed that we were already engaged bilaterally with different SWFs. In addition, a multilaterally-agreed framework for SWF best practices could also help diffuse protectionist tensions, mitigate any systemic risk, and help guide countries that were setting up new SWFs to think through issues carefully. Minister Tharman conceded that there would be "some merit" in best practices as long as they were not "politically driven." Noting that Singapore's SWFs had provided much guidance to new SWFs in other countries, DAS Dohner and Director Kaproth raised concerns that most countries did not have the same strong administrative culture to provide checks and balances on SWF fund managers. As such, others might need more help structuring risk management systems. Transparency would be a large part of those checks and balances.

Transparency for Some, But Not Singapore

¶9. (C) Minister Tharman coyly acknowledged the need to improve transparency in Singaporean SWFs. He thought that Singapore "from time to time" should release investment return figures, and noted that many Temasek and GIC investments in publicly-listed companies and real estate were already known in the market. He argued, however, that it would be inappropriate to disclose the total assets of GIC because it would create domestic pressure to reduce savings for future needs. DAS Dohner noted that given Singapore's unique situation, a high domestic savings rate might be appropriate; however, he questioned how individuals would be able to make proper savings decisions if they did not know how much the government had saved on their behalf.

¶10. (C) Temasek officials said they supported U.S. efforts to assess the financial stability and financial protection issues associated with SWFs. Managing Director GOH Yong Siang said that Temasek repeatedly explained to the market that its motives were solely commercial, but acknowledged that many in the region remained skeptical. Mr. Goh asserted that Temasek's investments in developed countries would help allay some of its neighbor's fears that it was only investing for political or strategic purposes; for this reason, it was important to address financial protectionism in developed countries.

¶11. (C) GIC officials expressed similar sentiments, noting that U.S. concerns about systemic risk and financial protectionism were valid, especially in the context of a growing number and size of SWFs. GIC Deputy Chairman and Executive Director Dr. Tony Tan pointed out that GIC's mandate -- maintaining the real purchasing power of Singaporean fiscal and foreign exchange reserves -- might be unique among SWFs. GIC had not held itself up as a model for other funds when it had advised them.

Comment

¶12. (C) Singapore's paternalistic attitude towards (or mistrust of) its population's savings decisions will continue to fuel GoS reluctance to increase SWF transparency. Given the large size, long history and perceived success of funds

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such as Temasek and GIC, any effort to develop international best practices that did not include Singapore would have less legitimacy among many Asian countries now attempting to establish their own SWFs. Nevertheless, with the rapid growth of SWFs around the world, Singapore may not be able to withstand pressures for more transparency indefinitely.

¶13. (U) DAS Dohner and Director Kaproth cleared this message.

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